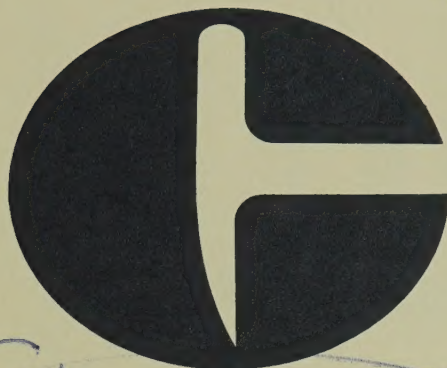


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Sub
**CONWEST
EXPLORATION**
C O M P A N Y L I M I T E D

THIRTY-NINTH ANNUAL REPORT

NOTICE OF MEETING
INFORMATION CIRCULAR

December 31 — 1977

Thirty-Ninth Annual Report

of

C O N W E S T

EXPLORATION COMPANY LIMITED

OFFICERS

M. P. CONNELL President
J. C. LAMACRAFT Executive Vice-President
I. F. T. KENNEDY Vice-President
C. K. O'CONNOR Vice-President,
Exploration and Development
J. A. PATTERSON Secretary-Treasurer
J. S. ADAMS Assistant Secretary-Treasurer

DIRECTORS

W. C. CAMPBELL Toronto, Ontario
E. B. CONNELL Spencerville, Ontario
M. P. CONNELL Toronto, Ontario
S. E. JAMIESON Toronto, Ontario
I. F. T. KENNEDY Toronto, Ontario
J. C. LAMACRAFT Toronto, Ontario
C. K. O'CONNOR Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

MONTREAL TRUST COMPANY Toronto, Ontario

BANKERS

THE TORONTO-DOMINION BANK Toronto, Ontario

AUDITORS

CLARKSON, GORDON & CO. Toronto, Ontario

SOLICITORS

DAVIES, WARD & BECK Toronto, Ontario

ADMINISTRATIVE OFFICE

SUITE 1010, 85 RICHMOND STREET WEST Toronto, Ontario

ANNUAL MEETING

June 30, 1978 The Johnston Room 1 & 2
Hotel Toronto
145 Richmond Street West
Toronto, Ontario



Report of the Directors

To the Shareholders,
Conwest Exploration Company Limited.

Your Directors submit the Annual Report for the year ended December 31, 1977. Included are the consolidated financial statements and the auditors' report thereon. Also enclosed are the notice of annual and special general meeting, information circular and form of proxy.

The activities of your Company are carried out through a number of undertakings, the most important of which are reported on below.

FINANCIAL

The financial statements contained in this report represent the consolidation of your Company's finances and its controlling interest in several companies, including International Mogul Mines Limited, Consortina Incorporated and Basin Oil Exploration Limited. On an unconsolidated basis, the Company at year end enjoyed a strong financial position, with working capital of \$3,807,000 and marketable securities having a quoted market value of \$3,937,000.

EXPLORATION

Your Company is maintaining an extensive Canadian mineral exploration programme pursuant to an agreement with several related companies which provides for participation as follows:

Conwest Exploration Company Limited	30%
Calmor Iron Bay Mines Limited	18%
Chimo Gold Mines Limited	27%
Consolidated Canadian Faraday Limited ..	25%

The total amount expended during 1977 was \$1,424,000. Expenditures by unrelated joint venturers on projects in which the above-named group participates were approximately \$2,018,000, resulting in a total exploration exposure of \$3,442,000.

The exploration budget for the joint activities of the above companies for 1978 is \$1,500,000.

The Conwest Canadian Uranium Exploration Joint Venture operated for its second full calendar year during 1977 with a wide-ranging exploration effort being conducted throughout Canada. Conwest and certain related companies shared a 20% participation in the \$1,818,000 budget of the Joint Venture as follows:

Conwest Exploration Company Limited	25%
Consolidated Canadian Faraday Limited ..	25%
International Mogul Mines Limited	25%
Chimo Gold Mines Limited	15%
Calmor Iron Bay Mines Limited	10%

The other participants in this Joint Venture, each contributing as to 20%, are Central Electricity Generating Board (a British agency), Eldorado Nuclear Limited (a Canadian Crown corporation), Electrowatt Limited (a Swiss company) and Empresa Nacional Del Uranio, S.A. (a Spanish company).

The reports of Mr. C. K. O'Connor, Vice-President, Exploration and Development, and Dr. E. F. Evoy, Technical Director of the Conwest Canadian Uranium Exploration Joint Venture, are appended.

INTERNATIONAL MOGUL MINES LIMITED

Conwest holds 49.1% of the common shares issued and outstanding of International Mogul Mines Limited. The accounts of International Mogul are consolidated in the financial statements of your Company for the year ended December 31, 1977 on the basis set out in Note 1 to those financial statements. A copy of the report of the Directors of International Mogul is appended hereto.

CONSOLIDATED CANADIAN FARADAY LIMITED

Conwest holds, directly and indirectly, a 13% interest in Consolidated Canadian Faraday Limited, a mining and exploration company whose primary interest is a 49% interest in Madawaska Mines Limited. Madawaska owns and operates a mine located near Bancroft, Ontario. Madawaska maintained continuous mining production during 1977 and 440,753 pounds of U_3O_8 were produced from 295,068 tons of ore milled. Profits realized on this production were used to reduce that company's indebtedness.

Faraday, as noted elsewhere in this report, continues as a participant with Conwest in various Canadian exploration activities.

CHANCE MINING AND EXPLORATION COMPANY LIMITED

Your Company holds a 54% interest in Chance Mining and Exploration Company Limited. The 1976 Annual Report contained details of agreements with Texasgulf Canada Ltd. effective from June 24, 1977, providing for the exploration of certain of Chance's Timmins Area properties, along with a report on the properties and events leading up to the agreements.

Subsequently, considerable exploration work has been carried out by Texasgulf on certain of the Chance claims.

On the South Half Lot 6, Concession 6, Kidd Township, Texasgulf completed its commitment under the principal agreement by completing a total of 10,815 feet of diamond drilling in the period July 9 to October 2, 1977. Detailed geophysical surveys were also redone in two directions over the claim group. On the basis of the fourteen diamond drill holes completed on the property it is not possible to ascribe any significant tonnage to the mineralization initially indicated.

Texasgulf has recently advised Chance that it plans to drill two additional holes prior to the anniversary date of the Agreement. As of the date of this report, Chance has not been advised whether Texasgulf intends to extend the option.

On the other lands optioned to Texasgulf, magnetometer and electromagnetic surveys have been carried out. No significant new anomalies have been encountered.

BAY COPPER MINES LIMITED

Conwest holds an 80% interest in Bay Copper Mines Limited. Bay Copper optioned its lead-zinc-silver prospect in the Bathurst area of New Brunswick to Texasgulf Inc. in 1974. The Option Agreement provides for the amalgamation of the Bay property with an adjacent Texasgulf property, subject to Bay Copper retaining a 10% net operating profits interest.

Texasgulf has carried out a considerable amount of exploration of the joint properties, which in 1977 included a further 4,287 feet of diamond drilling in five holes with the objective of locating additional shallow mineralization. No significant new ore grade mineralization was encountered.

The Agreement provides that if the properties are not placed in commercial production within five years, Texasgulf may extend the time in which the properties are placed into production from year to year by the payment of an advance royalty to Bay Copper of \$250,000 per year, commencing August 1979.

MUSCOCHO EXPLORATIONS LIMITED

Conwest holds a 31% interest in Muscocho Explorations Limited.

Muscocho received \$123,175 in royalty payments from Noranda during 1977 pursuant to a lease agreement on a copper deposit in Hebecourt Township, Quebec, in which Muscocho holds a 15.55% interest. This completes the Schedule of Payments with respect to the originally calculated ore reserves.

Muscocho holds under option a gold and base metal prospect at Montauban, 50 miles west of Quebec City, on which additional exploration was carried out in 1977. Selco Explorations Limited have recently terminated their option after drill testing two anomalies without encountering significant mineralization. Muscocho is currently holding discussions with other parties with respect to the development of the gold zone, and the recent gold price increase should have a favourable influence on the outcome of these negotiations.

Muscocho continues to hold a large number of claims in the Albanel Lake iron range.

MANASAN MINES LIMITED

Conwest holds a 74% interest in Manasan Mines Limited (Central Patricia Gold Mines, Limited holds an additional 18.5%), which company holds certain claims near Thompson, Manitoba. In 1976 Manasan entered into an agreement with Falconbridge Nickel Mines Limited providing for further exploration of the properties. Falconbridge may earn a 66% interest in Manasan. The Province of Manitoba elected to participate in the initial exploration programme to the extent of 50%, but has declined to participate in further programmes, and its interest will consequently be diluted.

Exploration to date under this agreement has included over 40 line miles of gridding and ground electromagnetic and magnetic surveys, and diamond drilling totalling 7,502 feet in 11 holes. Of these, six holes have tested a 3,200 foot length of one conductive horizon containing significant nickeliferous sulphide mineralization over narrow widths. Further drilling of this horizon has been recommended along strike and to depth to search for an improvement in thickness and grade.

BASIN OIL EXPLORATION LIMITED

Your Company holds a 91.5% interest in Basin Oil Exploration Limited. While the company still maintains its modest involvement in the Okmulgee County, Oklahoma, shallow gas play, results there have been largely disappointing.

CONSORTINA INCORPORATED

Your Company holds a 60% interest in Consortina Incorporated. Consortina owns and operates a number of restaurants, lounges and accommodation units in the Metropolitan Toronto area.

1977 marked a year of major developments with the reopening of "The Ports", 1145 Yonge Street in Toronto, on April 25, the opening of Bemelmans Restaurant, 83 Bloor Street West, on May 8, and the reopening of the lounge facilities at The Ascot Inn at Rexdale and Highway 27 in Etobicoke, on July 18. These operations, together with the Jarvis House in Toronto and the Riverside Lodge in Oakville, constitute all the operations owned by the company.

For the year ended December 31, 1977, Consortina incurred a loss of \$875,000 on sales of \$7,930,000 before depreciation of \$452,000 and financing costs of \$1,524,000, including interest on shareholder advances totalling \$779,000. The losses incurred during the year include the pre-opening expenses from The Ports and Bemelmans, together with other substantial non-recurring expenses from those units and The Ascot Inn that were absorbed in the months following opening or reopening.

At present, all units are generating profits from operations. For the sixteen-week period ending April 22, 1978, sales of \$3,009,000 produced a profit of \$239,000 before depreciation and financing costs.

HSA REACTORS LIMITED

Your Company holds a 42.2% interest in HSA Reactors Limited.

The HSA reactor utilizes a unique electrode with a surface area many times greater than that of conventional electrochemical cells resulting in substantially improved electrical efficiencies. The principal

areas of research include the application of the HSA reactor to the treatment of metallic waste effluents, hydrogen generation, organic synthesis and hydrometallurgy. Patent applications have been filed in a number of countries. Patents have been granted in four countries, including the United States.

During 1977 emphasis continued on reactor design, scale-up and application testwork and the successful operation and testing of a pilot plant in Chicago in mid-year. This successful test of the treatment of metallic and cyanide effluents from a metal finishing plant has generated considerable interest from industry and government. A prototype reactor system will be installed in Buffalo in mid-1978.

CORPORATE DEVELOPMENT

On December 23, 1977, the Company completed its sale of 500,000 First Preferred Shares to a Canadian chartered bank for \$5,000,000. The annual dividend rate, which is calculated on a quarterly basis, is equal to .55 times the bank's average prime rate plus 1.2%. The rate at May 25, 1978 was 6.3%. Further details on this preferred share issue are contained in Note 8 to the financial statements.

MANAGEMENT STAFF AND EMPLOYEES

Your Directors would like to acknowledge the valuable contribution made by the management staff and employees of your Company and of Consortina Incorporated.

On behalf of the Board,

MARTIN P. CONNELL,
President.

Toronto, Ontario.
May 25, 1978.

Report on General Exploration

The following are the more significant mineral exploration programmes, other than uranium, in which your Company participated during 1977.

Group I — Conwest 66%, Chimo 20%, Calmor 13½%

The MacMillan Joint Venture with Essex Minerals Company (a subsidiary of U.S. Steel) is managed by Conwest which holds a 51% interest for the Conwest Group companies. The property being explored lies 60 miles north-west of the Anvil lead-zinc-silver mine in the east central Yukon Territory, and the location of similar type mineralization is the objective. Preliminary geophysical, geochemical and geological surveys were completed during 1977 leading to the selection of diamond drilling targets which will be tested during the 1978 summer field season.

Group II — Conwest 30%, Chimo 27%, Calmor 18%, Faraday 25%

a) Conwest is continuing a base metal exploration programme in selected areas of Ontario. During the past year, Input airborne electromagnetic and magnetic surveys were carried out in three areas, ground geophysical surveys in three areas, and diamond drilling of 1,745 feet in 9 holes was completed to test 5 anomalies in two areas. No economic mineralization was located, however, minor copper mineralization encountered in two widely separated areas warrants further investigation. Ground geophysical follow-up is planned in a new project area.

b) Exploration in New Brunswick is continuing with programmes planned for four areas, managed from our regional office in Bathurst. Potential joint venturers are being invited to participate.

Exploration of existing claim groups in the Bathurst camp during the 1977 field season eliminated a number of geophysical and geochemical anomalies from further consideration, and no diamond drilling was required. Exploration has been essentially completed on all of the claims acquired in 1976. Late in 1977 Conwest acquired, by staking, the old Devils Elbow copper prospect. It is expected that field work planned for this season will lead to the definition of new drill targets on this property.

c) During 1977 exploration was carried out on four base metal properties acquired by option and staking in widely separated areas of British Columbia. Diamond and/or percussion drilling was done on three of these. No economic mineralization was located. The optioned properties were relinquished and no further exploration is currently planned for British Columbia this coming field season. Accordingly, the Smithers field office has been closed.

The Company is maintaining a balanced base metal exploration programme in anticipation of improved economic conditions in this sector and in recognition that attractive opportunities often arise during a period of depressed activity.

Respectfully submitted,

C. K. O'CONNOR

Vice-President, Exploration and Development

Report on the Conwest Canadian Uranium Exploration Joint Venture

1977 was the second full year of an initially planned five year program. The participants include Central Electricity Generating Board (a British agency), Eldorado Nuclear Limited (a Canadian Crown corporation), Electrowatt Limited (a Swiss company), Empresa Nacional Del Uranio, S.A. (a Spanish company), along with the Conwest Group. All participants contribute equally to an indexed annual budget of \$1,500,000. The Saskatchewan Mining Development Corporation holds a 33⅓ per cent interest and contributes correspondingly to all current projects within Saskatchewan.

The Joint Venture holds two large, well-located groups of claim blocks in Saskatchewan overlying the south-east edge of the Athabasca Basin for an aggregate length of about 55 miles, between the new Key Lake uranium deposits, and those of Gulf Minerals near Wollaston Lake. Other properties are held in the Cambrian Lake area of northern Quebec and in western Newfoundland.

In Saskatchewan during the past twelve months approximately 160 shallow core holes were drilled providing cumulative footage of about 39,000 feet. Most of the drilling has been at the east end of the property, near Michael and Mitchell Lakes. Uranium mineralization regarded as anomalous has been intersected in four locations within this area. This work is continuing, and will be augmented in selected areas by additional geochemistry and ground surveys.

Subsequent to the year end an agreement has been concluded with Denison Mines Limited whereby Denison may earn an interest in a part (approximately 100,000 acres) of the Saskatchewan claim blocks. Denison will conduct exploration on the farmed-out lands and may earn a half interest in the Joint Venture's interest by the expenditure of \$1,000,000.

In Quebec the investigation of lake sediment anomalies first located in 1976 has led to the discovery of numerous radioactive boulders on the Company's permits. During the coming field season the prospective areas will be further explored by ground prospecting, mapping, trenching and geophysical work in anticipation of a fall or winter drill program.

The Newfoundland claims have yielded highly anomalous lake sediment and soil geochemical anomalies, but other exploratory techniques have failed so far to define drill sites. The data is being re-evaluated, and the next stage of investigation has not yet been determined, however, the geochemical assays are of sufficient magnitude that additional work is obligatory.

Respectfully submitted,

Dr. E. F. EVOY,

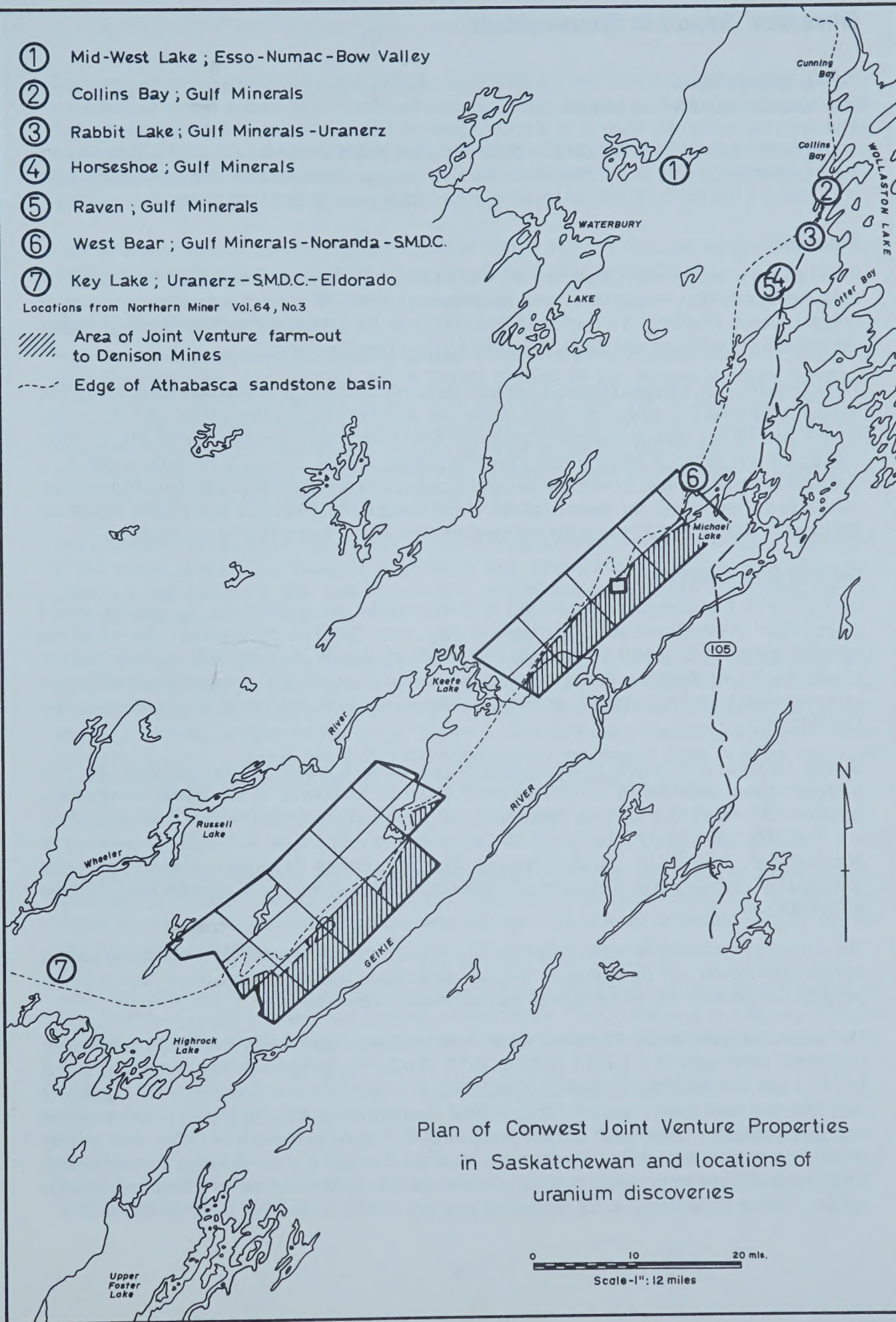
Technical Director.

- ① Mid-West Lake ; Esso - Numac - Bow Valley
- ② Collins Bay ; Gulf Minerals
- ③ Rabbit Lake ; Gulf Minerals - Uranerz
- ④ Horseshoe ; Gulf Minerals
- ⑤ Raven ; Gulf Minerals
- ⑥ West Bear ; Gulf Minerals - Noranda - S.M.D.C.
- ⑦ Key Lake ; Uranerz - S.M.D.C. - Eldorado

Locations from Northern Miner Vol.64, No.3

//// Area of Joint Venture farm-out to Denison Mines

----- Edge of Athabasca sandstone basin



Plan of Conwest Joint Venture Properties
in Saskatchewan and locations of
uranium discoveries

0 10 20 mls.
Scale - 1" = 12 miles

Directors' Report to Shareholders

To the Shareholders,
International Mogul Mines Limited.

Your Directors submit the Annual Report for the year ended December 31, 1977. Included are the consolidated financial statements of the Company and the auditors' report thereon. Also enclosed are the notice of annual meeting, information circular and form of proxy.

Financial

Income for the year ended December 31, 1977 was \$706,000 before writing off \$2,403,000 of deferred acquisition, exploration and development costs of mining properties incurred in previous years, resulting in a loss of \$1,698,000 or \$0.83 per common share. Working capital derived from operations was \$633,000 or \$0.25 per common share.

The Company is in a strong financial position. Working capital at year end was \$3,426,000 and the quoted market value of investments, which are reflected in the balance sheet as non-current assets, was \$6,321,000. Subsequent to the year end, a subsidiary company issued \$10,000,000 aggregate par value of floating rate First Preference Shares, having a five-year term, to a Canadian chartered bank. These shares carry a cumulative preferential dividend at a floating rate related to the prime, with the present dividend rate being 6.0%. This issue significantly increases the capital base of the Company for the medium term at a favourable cost of capital.

Oil and Gas Interests

During 1977 the Company continued to concentrate on establishing a base for direct participation in the Canadian oil and gas industry. Your Directors continue to believe that the industry offers an excellent opportunity for long-term growth of assets and income and will provide the most immediate, direct and predictable method of utilizing the substantial income tax shelter available to the Company and its subsidiaries currently estimated to be approximately \$20,000,000.

During the year, over twenty potential acquisitions were reviewed and/or evaluated and one acquisition was successfully completed when 100% of the shares of two related companies, Scotfield Oil & Gas Ltd. and Myrol Petroleums Ltd., were acquired in September. This acquisition is a diversified package of Alberta natural gas properties with proven and probable reserves of approximately 19.8 B.C.F. as at December 31, 1977, before deduction of royalty interests (principally Crown royalty). Approximately half of the reserves are under contract and currently on production.

The Company has established a budget for oil and gas exploration projects. It is anticipated that initially exploration will be limited to low-risk exploration plays adjacent to or near existing production and that risk will be shared with joint venture partners.

The level of activity in the Canadian oil and gas industry, particularly in Alberta and British Columbia, continued at a record pace in 1977. Producing companies have reported record profits, cash flow and reinvestment in exploration and development. Discoveries of significant new reserves have been reported. Stock market volumes and prices for shares of Canadian oil and gas producers have been at high levels and numerous takeovers of public and private production and exploration companies have occurred. Foreign and domestically funded drilling funds have become increasingly popular. Companies with established banks of land and mineral rights continue to be favoured by escalating land prices and these other developments.

The prospects for continuation of the high level of activity for the immediate and medium term are uncertain. It would appear that increased exports of natural gas to the United States, either through acceleration of deliveries under existing contracts or through non short-term contracts, are essential if the momentum of the industry in western Canada is to be maintained, and in the circumstances, it is reasonable to assume that uncontracted Alberta gas will probably not be brought on stream until 1980 at the earliest.

Your Directors believe that the long-term outlook for this industry remains positive and that the short-term uncertainties will occasion opportunities for further acquisitions.

Mining Exploration Interests

Your Company maintained its 5% participation in the Conwest Canadian Uranium Exploration Joint Venture. The Joint Venture has a 66⅔% interest in two groups of claim blocks in Saskatchewan which overlie the edge of the Athabasca Basin for an aggregate length of approximately 55 miles between the Key Lake uranium deposits and those of Gulf Minerals near Wollaston Lake. These claim blocks, which comprise about 330,000 acres, will continue to justify intense exploration and a large budget for at least the next several years. A report of the Technical Director of the Joint Venture is appended.

The Company continues to maintain its interests in various mining properties which are reviewed in the report of the Vice-President, Exploration and Development, which is appended. The Company has initiated a new base metals joint venture in Saskatchewan with Saskatchewan Mining Development Corporation.

During the year the Company abandoned or determined it has no further economic interest in certain exploration projects, and deferred exploration and development expenditures of \$2,400,000 incurred in prior years have been written off. The principal projects are as follows: Intermogul Mines Limited (Italy — under option to Cominco Ltd.); Duncan Range Iron Mines Limited (Quebec — permits expired); Israel Continental (Washington State — under option to Granby Mining); Intermine Limited (U.K. — under option to Cominco Ltd.).

Subsequent to the year end, the Company has, subject to certain regulatory approval, sold its 90% interest in Harlow Wright Inc. for approximately \$650,000. Delhi Pacific Mines Limited, an effectively controlled company, has similarly sold its 10% interest in Harlow Wright Inc. for approximately \$75,000.

Your Directors look forward to the next year with optimism. The 1978 year should mark the return to profitable operations after three successive loss years. The Company is in a strong financial position and is in a position to take advantage of opportunities for further acquisitions in the oil and gas sector.

On behalf of the Board,

JOHN C. LAMACRAFT,
President.

Toronto, Ontario.
May 26, 1978.

Conwest Exploration

(Incorporated under the laws of the Province of Ontario)

Consolidated Balance Sheet

(with comparative figures for 1976)

	ASSETS			1976
	Resource Operation	1977 Restaurant and Hotel Operation	Total	Total
Current				
Cash	\$ 480,798		\$ 480,798	\$ 150,736
Term deposits and commercial paper, at cost which approximates market value	7,361,160		7,361,160	10,330,840
Accounts receivable	808,017	\$ 290,260	1,098,277	1,021,778
Inventory		229,056	229,056	106,691
Prepaid expenses	14,481	72,778	87,259	42,500
Current portion of notes receivable	337,009		337,009	365,215
Total current	9,001,465	592,094	9,593,559	12,017,760
Investments (notes 2 and 3)				
Shares with a quoted market value (market value 1977 — \$11,058,606; 1976 — \$12,050,729)	8,390,529		8,390,529	10,026,146
Notes receivable				325,854
Effectively controlled companies accounted for on the equity basis	1,754,085		1,754,085	1,553,985
Other shares and advances	1,694,806		1,694,806	1,133,158
Total investments	11,839,420		11,839,420	13,039,143
Resource interests (note 4)	8,557,916		8,557,916	4,286,689
Fixed (note 5)	11,774	10,638,611	10,650,385	7,812,651
Other				
Deferred past service pension cost (note 6) ..	66,413		66,413	83,016
Deferred income taxes		57,000	57,000	83,200
Goodwill		526,917	526,917	556,417
Total other	66,413	583,917	650,330	722,633
	<u>\$29,476,988</u>	<u>\$11,814,622</u>	<u>\$41,291,610</u>	<u>\$37,878,876</u>

On behalf of the Board

M. P. CONNELL, Director

J. C. LAMACRAFT, Director

To the Shareholders of
Conwest Exploration Company Limited:

We have examined the consolidated balance sheet of Conwest Exploration Company Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For Conwest Exploration Company Limited and for those other companies of which we are the auditors and which are consolidated or accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other

Toronto, Canada
May 19, 1978

AUDIT

Company Limited

(Canada Corporations Act)

December 31, 1977

(December 31, 1976)

LIABILITIES

	1977			1976
	Resource Operation	Restaurant and Hotel Operation	Total	Total
Current				
Bank overdraft		\$ 129,337	\$ 129,337	\$ 157,549
Bank loan				481,100
Accounts payable and accrued liabilities	\$ 702,813	691,185	1,393,998	1,242,731
Current portion of long-term debt	10,000	153,770	163,770	372,693
Total current	<u>712,813</u>	<u>974,292</u>	<u>1,687,105</u>	<u>2,254,073</u>
Long-term debt (note 7)			7,820,447	8,681,257
Unfunded portion of past service pension benefits (note 6)			213,848	236,416
			<u>9,721,400</u>	<u>11,171,746</u>
Minority interest			8,750,540	<u>10,839,205</u>
 Shareholders' equity				
Share capital				
Issued and outstanding (note 8)				
Preferred shares			5,000,000	
Common shares			1,284,998	1,284,998
Retained earnings			16,534,672	14,582,927
			<u>22,819,670</u>	<u>15,867,925</u>
			<u>\$41,291,610</u>	<u>\$37,878,876</u>

The accompanying notes are an integral part of these financial statements.

REPORT

procedures as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants.

Conwest Exploration Company Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1977

(with comparative figures for the year 1976)

	1977	1976
Retained earnings at beginning of year	\$14,582,927	\$14,241,393
Net income for the year	2,002,833	341,534
	16,585,760	14,582,927
Preferred share dividends	51,088	
Retained earnings at end of year	\$16,534,672	\$14,582,927

The accompanying notes are an integral part of these financial statements.

Conwest Exploration Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1977

(with comparative figures for the year 1976)

RESOURCE OPERATION	1977	1976
Source of funds:		
Gain on disposal of investments	\$ 3,619,495	\$ 2,444,287
Investment and other income (net of items not involving an outlay of funds)	<u>1,784,301</u> \$ 5,403,796	<u>542,226</u> \$ 2,986,513
Investment transactions —		
Cost of investments sold	<u>7,289,381</u>	<u>7,399,882</u>
Cost of investments purchased	<u>5,573,559</u>	<u>4,610,291</u>
Investment funds transferred to working capital	<u>1,715,822</u>	<u>2,789,591</u>
Repayment of notes receivable	<u>325,854</u>	<u>365,211</u>
Working capital acquired on consolidation of International Mogul Mines Limited		<u>5,902,150</u>
Less cost of 1976 investment		<u>705,143</u> 5,197,007
	<u>7,445,472</u>	<u>11,338,322</u>
Application of funds:		
Acquisition of oil and gas interests (note 4(a))	<u>5,460,159</u>	
Direct and general exploration, development and administrative —		
Gross expenditures	<u>4,742,551</u>	<u>3,769,414</u>
Less recovered from others	<u>3,293,281</u>	<u>3,129,789</u>
	<u>1,449,270</u>	<u>639,625</u>
Subscription to shares in, or advances to, other mining exploration or development companies	<u>1,009,849</u>	<u>217,445</u>
Net funds applied	<u>2,459,119</u>	<u>857,070</u>
Dividends paid by International Mogul Mines Limited	<u>349,680</u>	<u>87,420</u>
Working capital of subsidiary sold		<u>321,023</u>
Less proceeds on sale		<u>242,090</u> 78,933
	<u>8,268,958</u>	<u>1,023,423</u>
Net funds from (applied to) resource operation before undernoted items	<u>\$ (823,486)</u>	<u>\$10,314,899</u>
RESTAURANT AND HOTEL OPERATION		
Application of funds:		
Loss from operations (net of items not involving an outlay of funds)	<u>\$ 874,351</u>	<u>\$ 217,104</u>
Purchase of fixed assets and goodwill ...	<u>3,253,592</u>	<u>7,149,970</u>
Net funds applied to restaurant and hotel operation before undernoted items	<u>\$ 4,127,943</u>	<u>\$ 7,367,074</u>
Total increase (decrease) in working capital before undernoted items	<u>\$ (4,951,429)</u>	<u>\$ 2,947,825</u>
Issue of First Preferred Shares	<u>5,000,000</u>	
Increase (decrease) in long-term debt (net)	<u>(860,810)</u>	<u>8,178,024</u>
Interest expense	<u>(993,906)</u>	<u>(888,859)</u>
Preferred share dividend	<u>(51,088)</u>	
Net increase (decrease) in working capital	<u>(1,857,233)</u>	<u>10,236,990</u>
Working capital (deficiency) at beginning of year	<u>9,763,687</u>	<u>(473,303)</u>
Working capital at end of year	<u>\$ 7,906,454</u>	<u>\$ 9,763,687</u>

The accompanying notes are an integral part of these financial statements.

Conwest Exploration Company Limited

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1977

(with comparative figures for the year 1976)

	1977	1976
Resource operation:		
Dividend and interest income	\$ 1,107,599	\$ 503,133
Oil and gas production	508,340	
Gain on disposal of investments	3,619,495	2,444,287
Gain on disposal of mining properties		49,531
Other income	168,362	92,678
	<u>5,403,796</u>	<u>3,089,629</u>
General exploration and administrative expense together with the cost of current and prior years' direct exploration and development expenditures on mineral resource interests which were abandoned during the year (note 1)	3,197,772	1,685,453
Less portion of expenditures recovered from other companies	745,478	725,682
	<u>2,452,294</u>	<u>959,771</u>
Depletion and depreciation	161,307	
Write-down of investments	147,648	139,211
Company portion of losses of effectively controlled companies accounted for on the equity basis	15,746	62,210
	<u>2,776,995</u>	<u>1,161,192</u>
Income from resource operation before undernoted items	<u>\$ 2,626,801</u>	<u>\$ 1,928,437</u>
Restaurant and hotel operation:		
Revenue	<u>\$ 7,930,962</u>	<u>\$ 4,278,435</u>
Cost of sales and administrative expenses	8,805,333	4,495,539
Depreciation and amortization	451,692	185,414
	<u>9,257,025</u>	<u>4,680,953</u>
(Loss) from restaurant and hotel operation before undernoted items	<u>\$ (1,326,063)</u>	<u>\$ (402,518)</u>
Total income from resource and restaurant and hotel operations before undernoted items	\$ 1,300,738	\$ 1,525,919
Interest on long-term debt	973,390	705,840
Other interest expense	20,516	183,019
	<u>993,906</u>	<u>888,859</u>
Income before income taxes and minority interest	306,832	637,060
Income taxes	26,200	26,709
	<u>280,632</u>	<u>610,351</u>
Minority interest in net losses (income) of consolidated companies	1,722,201	(268,817)
Net income for the year	\$ 2,002,833	\$ 341,534
Earnings per common share	\$0.78	\$0.14

The accompanying notes are an integral part of these financial statements.

5,403,796
7,930,962
13,334,758

3,089,629
4,278,435
7,368,064

Conwest Exploration Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

1. Summary of significant accounting policies

(a) Long-term inter-corporate investments —

The accompanying financial statements include, on a consolidated basis, the accounts of the company, all of its subsidiaries, and an effectively controlled company (International Mogul Mines Limited) in which Conwest holds a 49% interest. The accounts of this company are included in consolidation because the shares not owned by Conwest (included in "minority interest" in these financial statements) are widely held and because it is management's opinion that the company is properly viewed, together with Conwest and its subsidiaries, as a single economic entity. The following companies are included on a consolidated basis:

	<u>Conwest Equity</u>
Basin Oil Exploration Limited	91 %
Bay Copper Mines Limited	80
Chance Mining and Exploration Company Limited	54
Coniska Copper Mines Limited	50
Consortina Incorporated (indirect ownership)	60
Conwest Exploration Overseas Limited	100
International Mogul Mines Limited	49
Manasan Mines Limited	73
Ontario Lithium Company Limited	83
Willow Creek Mines	100

Conwest's interest in other companies of which it has effective control are accounted for on the basis of cost plus Conwest's net equity in undistributed earnings in such companies since the date of acquisition effective control. The following are the principal companies accounted for on the equity method:

	<u>Conwest Equity</u>
HSA Reactors Limited	42 %
Hucamp Mines Limited	38
Liard Fluorspar Mines Limited	47
Muscocho Explorations Limited	31
West Graham Mines Limited	48

	<u>Mogul Equity</u>
Delhi Pacific Mines Limited	38 %

Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline which is other than temporary.

(b) Segmented reporting —

The accompanying financial statements have been prepared on a segmented basis to provide a meaningful comparison of the component parts of the company's operations. Inter-company investments and transactions have been eliminated from the financial results of each operation.

(c) Mineral resource interests —

The company writes off all general exploration expenditures incurred during the year and capitalizes the direct cost of acquisition, and expenditures thereon, of mineral resource properties which were in good standing at the year end. Upon disposal or abandonment of such properties the net gain or loss is reflected in the statement of income.

(d) Oil and gas resource interests —

The company follows the full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling. Proceeds received on disposal of properties are credited against such costs.

Depletion of costs accumulated, and depreciation of petroleum equipment, is provided using the composite unit of production method based on total proven reserves of oil and gas.

(e) Inventory —

Inventory, consisting of restaurant and hotel supplies, is valued at the lower of cost on a first-in, first-out basis and replacement cost.

(f) Fixed assets —

Fixed assets are carried at cost and, excluding those related to oil and gas production referred to in (d) above, are depreciated over their estimated useful lives as follows:

Buildings	— 4% straight line
Furniture, fixtures and equipment	— 10% straight line
Leasehold improvements	— over the remaining term of the lease plus the first renewal option

(g) Goodwill —

Goodwill represents the excess of the purchase price on the acquisition of restaurants or hotels, over the fair market value of all the assets acquired. Goodwill is being amortized on a straight-line basis over a period of twenty (20) years from the date of the respective acquisitions.

2. Shares with a quoted market value

The quoted market value of these shares at December 31, 1977 was \$11,058,606 (1976 — \$12,050,729).

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of the investments, which may be more or less than indicated by market quotations.

3. Effectively controlled companies accounted for on the equity basis

	December 31, 1977			
	Number of shares	Percentage interest	Carrying value	Quoted market value
Investments with quoted market value —				
Muscocho Explorations Limited	1,505,000	31%	\$ 473,972	\$ 301,000
Delhi Pacific Mines Limited	1,559,498	38	128,820	155,950
Hucamp Mines Limited	662,205	38	64,147	364,213
			666,939	\$ 821,163
Other investments and advances			1,087,146	
Total investment in effectively controlled companies			\$1,754,085	

Subject to certain conditions Conwest may become committed to finance additional exploration expenditures of Muscocho, at Muscocho's option, to a maximum of \$2,000,000 to the end of 1978 by way of subscribing for a combination of shares and income debentures of Muscocho. The company had advanced \$205,000 under this agreement, of which \$93,000 has been repaid at December 31, 1977. During 1977 the company received 205,000 common shares and 6% debentures in the amount of \$112,000. The debentures are included in "other investments and advances".

4. Resource interests, at cost less amounts charged to income

	1977			1976
	Oil and gas interests	Mineral interests	Total	Total
Balance at beginning of year	\$ 83,829	\$4,202,860	\$4,286,689	\$1,644,082
Add:				
Acquisitions in year	5,460,159		5,460,159	
Current year's expenditures net of recoveries	148,962	307,869	456,831	292,139
Properties and expenditures acquired in consolidation of International Mogul Mines Limited				2,919,232
	5,692,950	4,510,729	10,203,679	4,855,453
Deduct:				
Depletion and depreciation	160,679		160,679	
Expenditures charged to income		1,420,459	1,420,459	568,764
Other (net)		64,625	64,625	
Balance at end of year	\$5,532,271	\$3,025,645	\$8,557,916	\$4,286,689

- (a) Effective September 30, 1977 International Mogul Mines Limited purchased 100% of Scotfield Oil & Gas Ltd. and Myrol Petroleum Ltd., which companies had producing and prospective oil and gas interests in Alberta, for a net cash consideration of \$4,779,762. Scotfield and Myrol were wound up into Mogul in December, 1977. Mogul accounted for these acquisitions using the purchase method of accounting and consolidated the results of their operations from October 1, 1977.

Mogul assigned the following costs to the net assets of Scotfield and Myrol at September 30, 1977.

Current assets	\$ 587,275
Current liabilities	1,267,672
Net working capital deficiency	(680,397)
Petroleum and natural gas leases and rights and equipment thereon	5,460,159
Net cash consideration	\$4,779,762

- (b) Pursuant to an agreement dated December 1, 1975, three other companies agreed to participate with the company in certain exploration projects of the company prior to December 31, 1975 and all non-hydrocarbon exploration subsequent to January 1, 1976. The participants have agreed to expenditures of up to \$1,500,000 annually for the three years ended December 31, 1978 allocated pro rata in accordance with their interest as follows:

Conwest	30%
Chimo Gold Mines Limited	27
Calmor Iron Bay Mines Limited	18
Consolidated Canadian Faraday Limited	25

This agreement does not affect the agreement with respect to the Conwest Canadian Uranium Exploration Joint Venture agreement referred to in (c) below.

- (c) Pursuant to an agreement dated March 18, 1976, Conwest Exploration Company Limited, Eldorado Nuclear Limited (a Canadian company), Empresa Nacional Del Uranio, S.A. (a Spanish company), Electrowatt Limited (a Swiss company) and Central Electricity Generating Board (a British agency) entered into a joint venture in connection with the exploration and development of uranium resources in Canada.

In addition to amounts paid to December 31, 1977, the agreement provides for contributions by each joint venturer in the following base amounts, subject to upward adjustments based on changes in the Consumer Price Index for Canada:

Year ended December 31	Required from each of the five joint venturers	Total to be received
1978.....	\$300,000	\$1,500,000
1979.....	300,000	1,500,000
1980.....	200,000	1,000,000
		<u>\$4,000,000</u>

Certain companies have agreed with Conwest to participate in Conwest's interest in the joint venture. These companies and Conwest will contribute their pro rata share of Conwest's exploration commitment and are entitled to pro rata shares of Conwest's entitlements:

Conwest	25%
Consolidated Canadian Faraday Limited	25
International Mogul Mines Limited	25
Chimo Gold Mines Limited	15
Calmor Iron Bay Mines Limited	10

5. Fixed assets

	1977			1976
	Restaurant and Hotel Operation	Mineral Resource Operation	Total	Total
Buildings	\$ 5,430,132		\$ 5,430,132	\$2,485,734
Furniture, fixtures and equipment	2,859,816	\$ 102,398	2,962,214	1,684,645
Leasehold improvements	548,301		548,301	379,319
	8,838,249	102,398	8,940,647	4,549,698
Accumulated depreciation and amortization	617,145	90,624	707,769	291,071
	8,221,104	11,774	8,232,878	4,258,627
Land	2,417,507		2,417,507	2,417,507
Construction in progress				1,136,517
	<u>\$10,638,611</u>	<u>\$ 11,774</u>	<u>\$10,650,385</u>	<u>\$7,812,651</u>

Oil and gas production equipment is included in oil and gas resource interests at cost less accumulated depreciation.

6. Pension costs

The balance of deferred pension costs, based on an actuarial valuation at December 31, 1976, will be charged to operations in equal instalments of \$16,600 in the years 1978 to 1981. The present value of the unfunded portion of past service benefits is being funded by annual payments of \$35,700 (including interest) to December 31, 1981 and thereafter by annual payments of \$19,000 (including interest) to December 31, 1988.

7. Long-term debt

	Current	Long-term
(a) Term bank loans —		
Interest at bank prime plus ¼%		\$ 750,000
Interest at bank prime plus 1¾%		833,333
Total term bank loans (refinanced by minority shareholders subsequent to the year end)		<u>1,583,333</u>
(b) Mortgages —		
— Secured by land and buildings having a cost of \$4,757,761		
10% First mortgage payable \$50,000 per annum (principal only), due January 19, 1981	\$ 50,000	1,242,630
— Secured by land and buildings having a cost of \$2,161,768		
4% First mortgage payable \$26,692 per annum (interest and principal), due June 1, 1980	20,154	151,649
10¾% Second mortgage payable \$112,224 per annum (interest and principal), due March 1, 1986	15,156	914,683
— Secured by land and buildings having a cost of \$621,064		
9½% First mortgage payable \$6,000 per annum (principal only), due June 22, 1980	6,000	121,500
Total mortgages	<u>91,310</u>	<u>2,430,462</u>
(c) Due to minority shareholders —		
Secured by Series B demand debentures of subsidiary		2,234,473
Unsecured advances		308,994
Total due to minority shareholders		<u>2,543,467</u>
(d) Fixed and floating charge debenture, secured by assets having a cost of \$1,316,546, interest at bank prime plus 2½%, payable \$62,460 per annum (principal only), due July 15, 1982	62,460	1,153,185
(e) Non-interest bearing notes payable \$10,000 per annum (principal only)	10,000	110,000
Total long-term debt	<u>\$ 163,770</u>	<u>\$7,820,447</u>

On October 28, 1977 Consortina Incorporated, a 60% owned subsidiary, issued Series A demand debentures as security to its financing group who had guaranteed its outstanding bank indebtedness. These debentures bear interest at the prime bank rate plus 4½% and are secured by a fixed and floating charge on all the assets of Consortina subject only to prior secured interests held by creditors referred to in (b) and (d) above. On March 1, 1978, the minority shareholders discharged the bank indebtedness and assumed the direct obligations from Consortina.

In addition, Consortina issued Series B demand debentures to secure outstanding advances from its financing group as at October 28, 1977. The Series B debentures, which are subordinate to the Series A debentures, have identical terms and conditions to the Series A debentures.

Payment of financing charges on both Series A and B debentures has been deferred from June 30, 1977 but full provision for the liability has been recorded in the accounts.

Holders of the Series A and B debentures due to minority shareholders have notified Consortina that in the ordinary course of business they will not demand repayment prior to January 1, 1979.

8. Share capital

Authorized:

- 1,000,000 First Preferred Shares of the par value of \$10 each, issuable in series, of which 500,000 Cumulative Redeemable First Preferred Shares, Series One constitute the first series
- 3,000,000 Common Shares without par value

Issued:

500,000 First Preferred Shares, Series One	\$5,000,000	
2,500,000 Common Shares	<u>1,284,998</u>	<u>\$1,284,998</u>
	<u>\$6,284,998</u>	<u>\$1,284,998</u>

On June 29, 1977 at the Annual and Special General Meeting, shareholders authorized, subject to confirmation by Supplementary Letters Patent (which were granted July 11, 1977), the creation of 1,000,000 First Preferred Shares of the par value of \$10 each, issuable in series and redesignated the previously authorized 3,000,000 shares without par value as 3,000,000 Common Shares without par value.

On December 23, 1977 the company issued 500,000 First Preferred Shares, Series One to a Canadian chartered bank for \$5,000,000 cash. These shares, which must be redeemed on December 31, 1984 and may be redeemed after December 31, 1980 at the company's option upon giving 30 days notice, have a cumulative variable dividend rate. The annual dividend rate is calculated on a quarterly basis, equal to .55 times the bank's average

prime rate plus 1.2%. The dividend rate at December 31, 1977 was 5.74% (March 31, 1978 — 5.77%). Pursuant to the subscription agreement the company is required to maintain a purchase fund for the redemption of these preferred shares and, in certain circumstances, they are redeemable, prior to maturity, at the option of the holder.

9. Income taxes

Under the Income Tax Act the company, and the companies consolidated herein, have in excess of \$30,000,000 of exploration and development expenditures (included in resource interests or previously written off and deducted from retained earnings), capital cost allowances and non-capital losses available to reduce income for tax purposes in future years.

10. Remuneration of officers and directors

The company has 7 directors and 6 senior officers (as defined in the Canada Corporations Act), 4 of whom are directors. Aggregate direct remuneration during 1977 was as follows:

	As directors	As officers
Directors.....	\$ 900	
Officers.....	1,800	\$180,167
	<u>\$ 2,700</u>	<u>\$180,167</u>

Central Patricia Gold Mines, Limited pays substantially all the remuneration of directors and senior officers of certain related companies (the Conwest Group) and is reimbursed by these companies for their proportionate share. During the year, Conwest's share of the amounts so paid was \$165,167 which is included in the \$180,167 referred to above.

11. Reclassification of 1976 comparative figures

Certain of the 1976 comparative figures have been reclassified to conform with groupings adopted in 1977. There has been no change in 1976 net income previously reported.

12. Anti-Inflation Act

The Company, and the companies included herein on a consolidated basis, are subject to the Anti-Inflation Act which provides for the restraint of profit margins, prices, dividends and compensation. In management's opinion, the Company, and the companies included herein on a consolidated basis, have complied with the provisions of this Act for the year ended December 31, 1977.

13. Subsequent events

- (a) Harlow Wright, Inc., a company which controls certain prospective lateritic nickel properties in the State of Oregon, U.S.A., is owned 90% by International Mogul Mines Limited and 10% by Delhi Pacific Mines Limited (38% owned by Mogul). Pursuant to an agreement dated January 19, 1978, Mogul and Delhi granted an option to Pan Arctic Explorations Ltd. (N.P.L.) to acquire their interests in Harlow Wright, Inc. for \$100,000 cash and 250,000 treasury shares of Pan Arctic.

The transaction closed on March 22, 1978 at which time the initial option consideration of \$100,000 cash and 50,000 treasury shares of Pan Arctic was received. In order to maintain the option in good standing and to fully exercise the option, Pan Arctic must issue the balance of 200,000 treasury shares no later than certain agreed upon dates extending up to December 22, 1979.

On March 22, 1978, shares of Pan Arctic, which are listed on the Vancouver Curb Exchange, closed at \$3.95 per share.

- (b) Pursuant to an agreement dated May 1, 1978, Mogul and Delhi agreed to sell their rights under the January 19, 1978 agreement referred to in (a) above (other than their right to the \$100,000 which they have received) for \$625,000 of which \$312,500 was received on May 5, 1978 and is being held by Mogul in escrow pending regulatory approval of the sale. Following such approval, the balance of the purchase price will be secured by a non-interest bearing promissory note due October 1, 1978. Completion of this transaction is not conditional upon exercise of the Pan Arctic option.

- (c) On May 5, 1978 I.M.M. Ventures Limited, a wholly-owned subsidiary of Mogul, issued \$10,000,000 of cumulative redeemable non-voting first preference shares. The annual dividend rate on these shares from the date of issue to June 30, 1980 will be an amount equivalent to 1% plus ½ the average prime rate of Canadian chartered banks and thereafter to redemption at 1½% plus ½ the average prime rate.

These shares must be redeemed by Ventures on June 30, 1983, but may be redeemed after June 30, 1980 at the option of Ventures. All redemptions of these shares are at par value plus all accrued and unpaid dividends.

The provisions of these shares include a number of restrictions and covenants relating to the operations of Ventures. Contravention of any of these provisions provides the holder of these first preference shares with the right to require their immediate redemption by Ventures.

Mogul has agreed with the holder that, under certain circumstances, it will purchase the first preference shares from the holder and has secured this obligation by a pledge of securities having a value of approximately \$10,000,000.

- (d) In May, 1978, Mogul sold a 20% interest in its oil and gas interests in Alberta for \$1,090,000 cash.

Conwest Exploration Company Limited

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual and a special general meeting of the shareholders of CONWEST EXPLORATION COMPANY LIMITED (the "Company") will be held at The Johnston Room 1 & 2, Hotel Toronto, Toronto, Ontario on Friday, the 30th day of June, 1978 at the hour of 10:30 o'clock in the forenoon (Toronto time) for the following purposes:

1. To receive and consider the consolidated financial statements of the Company for the year ended December 31, 1977, together with the report of the auditors thereon;
2. To elect directors;
3. To appoint auditors and to authorize the directors to fix their remuneration;
4. To consider and, if approved, to sanction, with or without variation, By-law No. 93, being a by-law authorizing the Company to borrow money and to give security therefor, in the form requested by the Company's banker;
5. To consider and, if approved, to sanction, with or without variation, By-law No. 94, being a by-law, subject to confirmation by supplementary letters patent:
 - (i) amending the rights, restrictions, conditions and limitations attaching, as a class, to the First Preferred Shares in the capital stock of the Company and amending the rights, restrictions, conditions and limitations attaching, as a series, to the First Preferred Shares, Series One, being the first series of such class; and
 - (ii) authorizing an application for the issue of supplementary letters patent to confirm By-law No. 94; and
6. To transact such further or other business as may properly come before the meeting or any adjournment thereof.

DATED the 25th day of May, 1978.

By Order of the Board

J. A. PATTERSON,
Secretary-Treasurer.

- NOTE: (1) Shareholders who are not able to be personally present at the meeting are requested to sign and return, in the envelope provided for that purpose, the accompanying form of proxy for use at the meeting.
- (2) Copies of By-laws Nos. 93 and 94 may be inspected at the head office of the Company, 10th Floor, 85 Richmond Street West, Toronto, Ontario or at the office of the Company's transfer agent, Montreal Trust Company, 15 King Street West, Toronto, Ontario, during ordinary business hours at any time before the meeting and will be available for inspection at the meeting.

Conwest Exploration Company Limited

INFORMATION CIRCULAR

MANAGEMENT SOLICITATION

THIS INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY MANAGEMENT OF CONWEST EXPLORATION COMPANY LIMITED (the "Company") for use at the annual and special general meeting of shareholders of the Company to be held on Friday, June 30, 1978 at 10:30 o'clock in the forenoon (Toronto time) in The Johnston Room 1 & 2, Hotel Toronto, 145 Richmond Street West, Toronto, Ontario for the purposes set forth in the notice of meeting. The cost of the solicitation will be borne directly by the Company.

The form of proxy forwarded to shareholders with the notice of meeting confers discretionary authority upon the proxy nominee with respect to amendments or variations of matters identified in the notice of meeting or other matters which may properly come before the meeting.

The form of proxy affords the shareholder an opportunity to specify that the shares registered in his name shall be voted in favour of or against (i) the sanction of By-law No. 93 of the by-laws of the Company, being a borrowing by-law in the form required by the Company's banker and (ii) the sanction of By-law No. 94 of the by-laws of the Company, being a by-law subject to confirmation by supplementary letters patent, amending the rights, restrictions, conditions and limitations attaching, as a class, to the First Preferred Shares in the capital stock of the Company and amending the rights, restrictions, conditions and limitations attaching, as a series, to the First Preferred Shares, Series One, being the first series of such class.

The form of proxy also affords the shareholder an opportunity to specify that the shares registered in his name shall be voted or withheld from voting on the election of directors and the appointment of auditors.

If a poll is demanded, the shares represented by proxies in favour of Management nominees will be voted and will be voted for or against the sanction of By-law No. 93 and By-law No. 94 and will be voted or withheld from voting on the election of directors and the appointment of auditors, in each case in accordance with the specifications made by the shareholders in the manner referred to above.

IN RESPECT OF PROXIES IN WHICH THE SHAREHOLDERS HAVE FAILED TO SPECIFY THAT THE PROXY NOMINEES ARE REQUIRED TO VOTE FOR OR AGAINST THE SANCTION OF BY-LAW NO. 93 OR BY-LAW NO. 94 OR TO VOTE OR WITHHOLD FROM VOTING ON THE ELECTION OF DIRECTORS OR THE APPOINTMENT OF AUDITORS AS PROVIDED IN THE FORM OF PROXY, THE SHARES REPRESENTED BY PROXIES IN FAVOUR OF MANAGEMENT NOMINEES WILL BE VOTED IN FAVOUR OF THE SANCTION OF BY-LAW NO. 93 and BY-LAW NO. 94 AND IN FAVOUR OF THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS.

Management knows of no matters to come before the meeting other than the matters referred to in the notice of meeting. However, if any other matters which are not now known to Management should properly come before the meeting, the shares represented by the proxies in favour of Management nominees will be voted on such matters in accordance with the best judgment of the proxy nominee.

Proxies given by shareholders for use at the meeting may be revoked at any time prior to their use. In addition to revocation in any other manner permitted by law, a shareholder giving a proxy may revoke the proxy by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal, or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of such meeting on the day of the meeting, or adjournment thereof, and upon either of such deposits the proxy is revoked.

Voting Shares and Principal Holders Thereof

The authorized capital of the Company consists of 1,000,000 First Preferred Shares of the par value of \$10 each, issuable in series, of which 500,000 Cumulative Redeemable First Preferred Shares, Series One,

constitute the first series and 3,000,000 common shares without nominal or par value. 500,000 First Preferred Shares, Series One and 2,500,000 common shares have been issued and are now outstanding as fully paid and non-assessable. Holders of outstanding common shares of record at the time of the annual and special general meeting of shareholders will be entitled to one vote per share at such meeting.

To the knowledge of the directors and officers of the Company, the following are the only persons who beneficially own, or exercise control or direction over, shares of the Company carrying more than 10% of the votes attached to all shares of the Company.

<u>Name of Shareholder</u>	<u>Approximate Number of Shares Beneficially Owned or over which Control or Direction is Exercised</u>	<u>Percentage of Voting Shares</u>
Central Patricia Gold Mines, Limited	721,700	28.9
I. F. T. Kennedy	270,401	10.8
Constead Limited	250,000	10.0

Election of Directors

Each person whose name appears below is proposed to be elected as a director of the Company to serve until the next annual meeting of shareholders or until his successor is elected or appointed. In the event a poll is demanded, the shares represented by proxies in favour of Management nominees will be voted in favour of the election of such persons as directors of the Company, unless a shareholder has specified in a proxy that his shares are to be withheld from voting in the election of directors. In the event that any vacancies occur in the slate of such nominees, discretionary authority shall be exercised to vote such shares for the election of any other person or persons as directors.

<u>Name and Office Held in the Company</u>	<u>Present Principal Occupation</u>	<u>Period of Service as Director</u>	<u>Approximate Number of Shares of the Company Beneficially Owned or over which Control or Direction is Exercised</u>
W. C. Campbell Director	President, Consolidated Canadian Faraday Limited (a mining exploration company) and a senior partner of Day, Wilson, Campbell (Barristers & Solicitors)	June 3, 1975 to date	1
E. B. Connell Director	Farm Manager	April 29, 1963 to date	1,501
M. P. Connell ⁽¹⁾ President and Director	President of the Company	September 27, 1968 to date	32,956
S. E. Jamieson Director	Chairman, The British Metal Corporation (Canada) Limited (a company engaged in the business of marketing minerals and metals)	April 30, 1953 to date	1
I. F. T. Kennedy ⁽¹⁾ Vice-President and Director	Vice-President of the Company	September 28, 1968 to date	270,401

<u>Name and Office Held in the Company</u>	<u>Present Principal Occupation</u>	<u>Period of Service as Director</u>	<u>Approximate Number of Shares of the Company Beneficially Owned or over which Control or Direction is Exercised</u>
J. C. Lamacraft Executive Vice-President and Director	President of International Mogul Mines Limited (a resource exploration company)	June 20, 1974 to date	1
C. K. O'Connor Vice-President, Exploration and Development and Director	Vice-President, Exploration and Development of the Company	March 4, 1975 to date	1

NOTE: (1) Central Patricia Gold Mines, Limited ("Central Patricia") is an associate of Messrs. M. P. Connell and I. F. T. Kennedy. Reference is made to "Voting Shares and Principal Holders Thereof" above for particulars of the shareholdings of Central Patricia in the Company. Of the 270,401 shares of the Company beneficially owned or controlled by Mr. Kennedy, 99,200 are owned by Jobian Limited, an associate of Mr. Kennedy. A trust, an associate of Mr. Kennedy, beneficially owns a further 120,000 shares of the Company.

Remuneration of Directors and Officers

Reference is made to the attached Schedule A constituting a statement of the remuneration received by the directors and officers of the Company from the Company and its affiliates.

Central Patricia pays substantially all the remuneration of directors and officers of certain related companies and is reimbursed by these companies therefor. During the year, the Company's share of the amounts so paid was \$165,167.

Interest of Management and Others in Material Transactions

By an agreement dated May 9, 1977, which superseded an earlier agreement dated March 29, 1976, all of the direct or indirect shareholders of Consortina Incorporated ("Consortina"), namely the Company, Calmor Iron Bay Mines Limited ("Calmor"), Chimo Gold Mines Limited ("Chimo") and T. G. Kristenbrun agreed severally to guarantee bank indebtedness of Consortina and agreed (subject to certain limitations in the case of Mr. Kristenbrun) to make such advances to Consortina as Calmor, Chimo and the Company might unanimously agree upon from time to time. No bank indebtedness of Consortina is outstanding.

At the present time the indebtedness to the Company of, or relating to, Consortina is \$7,961,395. Shareholdings and financing interests in Consortina, are summarized below:

	<u>Equity</u>	<u>Financing Interest</u>
Calmor Iron Bay Mines Limited	12%	12.6%
Chimo Gold Mines Limited	18	19.0
Conwest Exploration Company Limited	60	63.1
T. G. Kristenbrun	10	5.3
	<u>100%</u>	<u>100.0%</u>

Certain of the directors and officers of the Company are also directors and/or officers of one or more of the other corporate shareholders of Consortina, or of Consortina itself and may, therefore, be considered to have an interest in the financing agreements. Those interests are set forth below:

<u>Name of Director or Officer of the Corporation</u>	<u>Office Held and Shares Beneficially Owned or over which Direction or Control is Exercised</u>			
	<u>Chimo</u>	<u>Calmor</u>	<u>Conwest</u>	<u>Consortina</u>
M. P. Connell 52 Chestnut Park Road, Toronto, Ontario	President & Director 1 share	President & Director 32,501 shares	President & Director 32,956 shares	Director —

Name of Director or Officer of the Corporation	Office Held and Shares Beneficially Owned or over which Direction or Control is Exercised			
	Chimo	Calmor	Conwest	Consortina
D. J. Hains 231 Westdale Road, Oakville, Ontario	Director 1 share	Director 48,500 shares	— —	— —
I. F. T. Kennedy 1 Douglas Drive, Toronto, Ontario	Vice-President & Director 1 share	Vice-President & Director 10,001 shares	Vice-President & Director 270,401 shares	— —
J. C. Lamacraft 121 Highbourne Road, Toronto, Ontario	Executive Vice-President & Director 1 share	Executive Vice-President & Director 1 share	Executive Vice-President & Director 1 share	Director —

Central Patricia and McVittie-Graham Mining Company Limited are associates of Messrs. Connell and Kennedy. Central Patricia is the beneficial owner of 28.9% of the outstanding shares of the Company, 30.7% of the outstanding shares of Chimo and 39.8% of the outstanding shares of Calmor. McVittie is the beneficial owner of 4.4% of the outstanding shares of the Company and 10.2% of the outstanding shares of Central Patricia.

Appointment of Auditors

Management proposes to nominate Clarkson, Gordon & Co., Chartered Accountants, the present auditors, as auditors of the Company to hold office until the close of the next annual meeting of shareholders. In the event a poll is demanded, it is intended that the shares represented by proxies in favour of Management nominees will be voted in favour of the appointment of Clarkson, Gordon & Co. as auditors of the Company, unless a shareholder has specified in a proxy that his shares are to be withheld from voting in the appointment of auditors.

Sanction of By-Laws Nos. 93 and 94

By-law No. 93 permits the Company to borrow money and to give security therefor and deals with other related matters. It is a by-law requested by the Company's banker in a particular form which it prefers.

In July, 1977 the capital of the Company was increased to include 1,000,000 First Preferred Shares of the par value of \$10 each, issuable in series. In December, 1977 the first series of these shares, consisting of 500,000 shares, was designated as First Preferred Shares, Series One and was sold to the Company's banker. The rights, restrictions, conditions and limitations attaching to these shares currently provide for a fixed dividend rate although by agreement, the Company's banker has been accepting a lesser rate, namely a floating rate equal to .55 times the bank's "prime rate" plus 1.2% per annum, calculated quarterly. The effect of By-law No. 94 is to amend the rights, restrictions, conditions and limitations attaching to the First Preferred Shares, as a class, and to the First Preferred Shares, Series One, as a series to provide for a floating rate dividend. Shareholders interested in the specific rights, restrictions, conditions and limitations to attach to the First Preferred Shares, Series One, may obtain a copy of By-law No. 94 as indicated in the notice of meeting.

By-laws No. 93 and 94 are required by law to be sanctioned by at least two-thirds of the votes cast at the annual and special general meeting of shareholders. In the opinion of the directors, the shareholders should vote in favour of the sanction of these By-laws.

The contents and the sending of this information circular have been approved by the directors of the Company.

(Signed) J. A. PATTERSON,
Secretary-Treasurer.

Dated May 25, 1978.

Schedule A

STATEMENTDIRECTORS' AND OFFICERS' REMUNERATION
FROM THE CORPORATION AND ITS AFFILIATES

SUB-PARAGRAPH 33(r)(v) OF THE CANADA CORPORATIONS ACT REGULATIONS

NATURE OF REMUNERATION EARNED**REMUNERATION OF DIRECTORS**

(A) Number of directors: 7

(b) *Body Corporate incurring the expense*CONWEST EXPLORATION COMPANY
LIMITED

Directors' fees	Salaries	Bonuses	Non-accountable expense all.	Others	Total
\$ 900					\$ 900
1,800	\$180,167				181,967
TOTALS	\$2,700	\$180,167			\$182,867

REMUNERATION OF OFFICERS

(a) Number of officers: 6

(b) *Body Corporate incurring the expense*CONWEST EXPLORATION COMPANY
LIMITED

Central Patricia Gold Mines, Limited pays substantially all of the remuneration of directors and senior officers of certain related companies and is reimbursed by these companies therefor. During the year, the Company's share of the amounts so paid was \$165,167 which was included in the \$180,167 above.

